

Message Text

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PAGE 01 PARIS 18568 01 OF 04 101425Z
ACTION EUR-12

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UNCLAS SECTION 01 OF 04 PARIS 18568

USMTN

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PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

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REF: PARIS 16535, MAY 24, 1978
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PAGE 02 PARIS 18568 01 OF 04 101425Z

1. SUMMARY

PRICE INCREASES ACCELERATE, FORECASTS FOR ECONOMIC
GROWTH ARE REVISED DOWNWARD, UNEMPLOYMENT INCREASES,
BUSINESS LEADERS EXPECT PRODUCTION GROWTH TO SLOW
DOWN. THIS IS THE BITTER MEDICINE PRIME MINISTER

BARRE EXPECTS A LARGE PART OF THE FRENCH PEOPLE TO SWALLOW IN ORDER TO RESTORE HEALTH TO THE FRENCH ECONOMY.

2. ECONOMIC FORECASTS REDUCED

THE NATIONAL ACCOUNTS COMMISSION WILL DISCUSS NEW FORECASTS FOR 1978 AND 1979 WHICH REFLECT A MORE REALISTIC APPROACH ON THE PART OF THE NEW ECONOMIC MINISTER MONORY RATHER THAN A BASIC CHANGE IN THE STATE OF THE ECONOMY. MANY EXPERTS HAVE BEEN AWARE FOR QUITE SOME TIME OF THE FACT THAT THE GOVERNMENT'S HOPE TO ATTAIN AN ECONOMIC GROWTH OF 4.5 PERCENT IN 1978 IS ENTIRELY UNREALISTIC. EVEN THE 3.2 PERCENT SHOWN IN THE TABLE BELOW IS CERTAINLY STILL TOO HIGH. MR. MONORY PUBLICLY STATED ON JUNE 7 THAT THE GROWTH RATE "COULD EVEN BE BELOW 3 PERCENT, BUT THIS WOULD AID A RETURN TO EXTERNAL EQUILIBRIUM."

NEW NATIONAL ACCOUNTS FORECASTS (VOLUME CHANGE FOR PREVIOUS YEAR)

1977 1978 1979
(IN SEPT.77) (JUNE78) (JUNE78)

GDP	2.9	4.5	3.2	3.7
IMPORTS	1.0	7.1	6.8	7.5
HOUSEHOLD CONSUMPTION	2.5	4.0	3.8	3.8

UNCLASSIFIED

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PAGE 03 PARIS 18568 01 OF 04 101425Z

INVESTMENT	-0.6	2.9	2.0	3.2
CONSUMER PRICES				
(ANNUAL AVERAGE)	9.4	7.6	9.2	8.5
WAGES (ANNUAL AVG.)	11.7		12.3	12.1
WAGE EARNERS'				
PURCHASING POWER	2.1	1.7	2.3	2.3

THE ANNUAL AVERAGE RISE IN CONSUMER PRICES, NOW SET AT

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PAGE 01 PARIS 18568 02 OF 04 100122Z

ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 COME-00
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UNCLAS SECTION 02 OF 04 PARIS 18568

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9.2 PERCENT FOR 1978, OBSCURES SOMEWHAT THE PRESENT
SHARP RISE IN PRICES. ECONOMISTS, SUCH AS JEAN
BOISSONAT OF EXAPNSION, PREDICT A 10 TO 11 PERCENT
RATE OF INFLATION BY THE END OF THIS YEAR; THE PARIS
CHAMBER OF COMMERCE PREDICTS THAT INFLATION WILL BE
"NEARER TO 12 PERCENT THAN TO 10 PERCENT THIS YEAR".
THE PARIS CHAMBER OF COMMERCE, AT THE SAME TIME,
PUT GDP GROWTH AT AROUND 2-1/2 PERCENT IN 1978.

3. PRICES ROSE SHARPLY IN APRIL

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PAGE 02 PARIS 18568 02 OF 04 100122Z

THE FRENCH CONSUMER PRICE INDEX ROSE BY 1.1 PERCENT
IN APRIL, 9.0 PERCENT OVER APRIL 1977. THE RISE IN
THE INDEX IS ACCELERATING: IT ROSE BY 0.5 PERCENT
IN JANUARY, 0.7 IN FEBRUARY, 0.9 PERCENT IN MARCH.
FOOD PRODUCTS ROSE BY 1.2 PERCENT IN APRIL (10.3
ABOVE LAST YEAR); MANUFACTURED PRODUCTS, 0.9 PERCENT
(8.0 ABOVE LAST YEAR); AND SERVICES, 1.1 PERCENT
(9.5 ABOVE LAST YEAR). THE MAY INDEX WILL CERTAINLY
SHOW AN INCREASE OF AT LEAST THE SAME MAGNITUDE
BECAUSE A WIDE RANGE OF PUBLIC SERVICES WERE SUBJECT.
TO INCREASES DURING THAT MONTH, INCLUDING TRANSPORTATION,

ELECTRICITY AND POSTAGE. INDUSTRIAL WHOLESALE PRICES ROSE BY 0.7 PERCENT IN APRIL, 1 PERCENT OVER APRIL 1977.

4. ALL INDUSTRIAL PRICE CONTROLS TO BE ENDED IN OCTOBER

ECONOMIC MINISTER MONORY, IN A PRESS CONFERENCE ON MAY 30, ANNOUNCED THAT INDUSTRIAL PRICES WOULD BE COMPLETELY FREE FROM CONTROL BY OCTOBER 15. THE FIRST SECTORS OF ACTIVITY WHICH WERE FREED FROM CONTROL, EFFECTIVE JUNE 1, ARE THOSE PRODUCING INDUSTRIAL VEHICLES, MACHINE TOOLS, TIRES AND OTHER RUBBER PRODUCTS, CLOCKS AND WATCHES, LEATHER GOODS AND CANNED VEGETABLES. OTHER SECTORS WILL BE FREED LATER, BUT NOT LATER THAN BY OCTOBER 15. ENTERPRISES AND TRADE ASSOCIATIONS WILL BE NOTIFIED BY LETTER OF THE EFFECTIVE DATES. THE TIMING WOULD DEPEND ON THE EXTENT OF DOMESTIC AND FOREIGN COMPETITION AND THE SECTOR'S IMPORTANCE FOR INDUSTRIAL RECOVERY. IT IS NOT LIKELY THAT THE TERMINATION OF THESE CONTROLS WILL BE A MAJOR CONTRIBUTING ELEMENT TO GENERALLY RISING PRICE LEVEL. COMPETITION AND UNCLASSIFIED

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PAGE 03 PARIS 18568 02 OF 04 100122Z

"GOVERNMENT ADVICE" WILL LIMIT INCREASES IN INDUSTRIAL PRICES.

5. BUSINESS LESS OPTIMISTIC

THE REGULAR MONTHLY POLL OF BUSINESS LEADERS, CONDUCTED DURING THE FIRST HALF OF MAY BY INSEE, IS LESS OPTIMISTIC THAN THE TWO PRECEDING SURVEYS. WHILE PRODUCTION ROSE IN PREVIOUS MONTHS, INDUSTRIALISTS NOW CONSIDER THEIR INVENTORIES TOO HIGH. IN MARCH AND APRIL ENTERPRISES WERE LOOKING FORWARD TO RAPID EXPANSION; IN MAY PROSPECTS WERE MORE MUTED. FOREIGN DEMAND CONTINUED TO DEVELOP FAVORABLY, AND ORDER BACKLOGS ARE CONSIDERED NORMAL. IN GENERAL, A "MODERATE TO SLOW" GROWTH IN PRODUCTION IS EXPECTED IN MOST SECTORS OF ACTIVITY IN THE COMING MONTHS. THE LATEST BANK OF FRANCE SURVEY, CONDUCTED IN APRIL, ALSO SHOWS THAT BUSINESS LEADERS EXPECT LITTLE IMPROVEMENT IN ACTIVITY IN THE NEAR FUTURE. THE BANK OF FRANCE SURVEY CONCLUDES THAT FOLLOWING THE SHARP INCREASE IN MARCH DEMAND EDGED UP ONLY LITTLE IN APRIL.

6. THE MOST RECENT SURVEY SHOWS NO UPTURN

ON JUNE 8 THE WIDELY READ ECONOMIC DAILY LES ECHOS PUBLISHED ITS MONTHLY SURVEY UNDER THE HEADING:

"HEAVY CLOUDS BEGIN TO OBSCURE THE SECOND HALF OF THE YEAR." THIS SURVEY, CONDUCTED END OF MAY, SHOWS THAT THE CAPITAL GOODS SECTOR IS HARDEST HIT. THE SITUATION IN ENTERPRISES MANUFACTURING MATERIAL FOR PUBLIC WORKS IS LABELLED "CATASTROPHIC". MANUFACTURERS IN THE IMPORTANT SECTORS OF MECHANICAL AND ELECTRICAL CONSTRUCTION, AS WELL AS MACHINE TOOLS, ALSO COMPLAIN. ON THE OTHER HAND, ACTIVITY IN THE AUTOMOBILE SECTOR CONTINUES BOUYANT. PRODUCTION THERE IS EXPECTED TO EXCEED THE RECORD LEVELS REACHED

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PAGE 04 PARIS 18568 02 OF 04 100122Z

IN 1977, AND MAY WAS AGAIN AN EXCELLENT MONTH.

7. MEASURES TO ATTRACT CAPITAL TO INDUSTRIAL SECTOR

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PAGE 01 PARIS 18568 03 OF 04 100144Z
ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
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UNCLAS SECTION 03 OF 04 PARIS 18568

USMTN

THE GOVERNMENT PROPOSES A NUMBER OF MEASURES, STILL TO PASS PARLIAMENT, TO ENCOURAGE INVESTMENT IN INDUSTRIAL SHARES. THE PROPOSALS INCLUDE EXEMPTION FROM INCOME TAX UP TO 5,000 FRANCS PER YEAR PER HOUSEHOLD INVESTED IN STOCKS, WITH AN ADDITIONAL 500 FRANCS PER CHILD (1,000 FRANCS FOR THE THIRD CHILD). AT THE SAME TIME INVESTMENT IN BONDS OTHER THAN TREASURY BONDS WILL BE MADE LESS ATTRACTIVE BY AN INCREASE FROM 33 TO 40 PERCENT OF THE WITHHOLDING TAX (AT THE BEARER'S OPTION IN LIEU OF INCOME TAX). OTHER INCENTIVES WOULD GIVE UNCLASSIFIED

UNCLASSIFIED

PAGE 02 PARIS 18568 03 OF 04 100144Z

INVESTORS AN INTEREST IN THE ENTERPRISE BY THE CREATION OF A NEW KIND OF PREFERENTIAL SHARE.

8. LOW INCREASE IN HOURLY WAGE RATES, EMPLOYMENT DECLINES

HOURLY WAGE RATES IN PRIVATE INDUSTRY AND TRADE ROSE BY 2.2 PERCENT FROM JANUARY TO APRIL. THIS IS THE SMALLEST INCREASE FOR ANY SINGLE QUARTER SINCE 1969, AND IT IS BELOW THE RATE OF THE INCREASE IN THE CPI (2.7 PERCENT). FROM APRIL 1977 TO APRIL 1978, HOWEVER, THE INCREASE IS STILL 12 PERCENT, AGAINST A 9 PERCENT INCREASE IN THE CPI. EMPLOYMENT LEVELS CONTINUED TO DECLINE BY 0.7 PERCENT DURING THE SAME QUARTER AND WERE 2 PERCENT BELOW APRIL 1977. SHARPEST DECLINE WAS IN ENTERPRISES MANUFACTURING ARTIFICIAL FIBERS, 3.6 PERCENT BELOW JANUARY AND 7.3 PERCENT BELOW APRIL 1977. MINING AND FIRST TRANSFORMATION OF METALS ALSO DECLINED SHARPLY. THIS TREND IS LIKELY TO CONTINUE IN LINE WITH GOF POLICY NOT TO ARTIFICIALLY MAINTAIN AND SUBSIDIZE ENTERPRISES IN FINANCIAL DIFFICULTIES.

9. SIGNS OF LABOR DISCONTENT

THE POST-ELECTORAL CALM ON THE LABOR SCENE HAS BEEN INTERRUPTED BY A NUMBER OF WORK STOPPAGES. A SERIOUS CONFLICT IN THE RENAULT FACTORIES, INVOLVING SIT-INS AND POLICE EVACUATION, COULD BE A THREAT TO GOF INCOMES POLICY. WHILE THE TIME FOR A SERIOUS TEST OF STRENGTH IS NOT YET RIPE IN VIEW OF THE PRESENT PRE-VACATION PERIOD, THE SITUATION COULD BECOME MORE SERIOUS THIS COMING FALL UNLESS PATRONAT, GOF, AND LABOR ENTER

INTO A NEW ROUND OF BARGAINING.

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PAGE 03 PARIS 18568 03 OF 04 100144Z

10. STOCK EXCHANGE CONTINUES TO EDGE UP

AVERAGE STOCK PRICES CONTINUED TO MOVE UPWARDS BY 3.2 PERCENT IN TWO WEEKS, 1.7 PERCENT IN ONE WEEK. THE MARKET WAS SATISFIED WITH THE AMENDMENTS TO THE CAPITAL GAINS TAX (SEE PARIS 16535 OF 5/24/78). GOLD CLOSELY FOLLOWS THE INTERNATIONAL TREND AND IS NOW QUOTED AT ABOUT \$180 AN OUNCE. THERE IS ABSOLUTELY NO TENSION IN THE MARKET; THIS ALSO APPLIES TO THE FOREX MARKET WHERE THE SWISS FRANC IS IN STRONG DEMAND AS A CONSEQUENCE OF THE RELATIVE WEAKNESS OF THE US DOLLAR.

11. INTEREST RATES ABOUT STABLE

CALL MONEY RATES AT 7 PERCENT ARE FRACTIONALLY BELOW THE 7-3/4 PERCENT RATE OF A FEW WEEKS AGO. ONE MONTH, 7-5/8 TO 7-3/4. THREE MONTHS, 7-3/4 TO 7-7/8. SIX MONTHS, 8 TO 8-1/8. IT APPEARS NOW UNLIKELY THAT THE BANK BASE RATE OF 9.30 WILL BE REDUCED SIGNIFICANTLY. THE MOVEMENT ON THE INTERNATIONAL MARKETS (LONDON, NEW YORK) MAKES THIS UNLIKELY. ACCORDING TO MARKET SOURCE, ONLY A TOKEN FRACTIONAL REDUCTION IS NOW POSSIBLE. CREDIT RESTRICTIONS AND CEILINGS APPLYING TO BANKS REMAIN UNCHANGED, AT LEAST UNTIL FALL. SOME BANKS WILL FACE A TIGHT SITUATION BY THE END OF JUNE IN THIS RESPECT, EVEN THOUGH OVERALL LIQUIDITY WILL REMAIN ADEQUATE. BANKS AT THEIR CREDIT CEILING LOSE MARKET SHARES TO OTHER BANKS--NOTABLY, CREDIT AGRICOLE. THIS HAD LED TO CONSIDERABLE AGITATION IN RECENT WEEKS FOR A CHANGE IN THE ADMINISTRATION OF CREDIT CEILINGS.

12. LONG TERM FOREIGN BORROWING DROPS SIGNIFICANTLY

THE AMOUNT OF FOREIGN BORROWING DROPPED TO 0.5 BILLION
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PAGE 04 PARIS 18568 03 OF 04 100144Z

FRANCS IN APRIL AND IS BELIEVED TO BE EVEN BELOW THIS FIGURE IN MAY. THIS COMPARES WITH 1.8 BILLION IN MARCH AND 1.9 BILLION IN FEBRUARY. THE DECLINE REFLECTS THE FRENCH GOVERNMENT'S DECISION TO CUT DOWN ON EXTERNAL

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PAGE 01 PARIS 18568 04 OF 04 101424Z
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UNCLAS SECTION 04 OF 04 PARIS 18568

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BORROWING SOME TIME AGO.

OTHER REPORTS SUBMITTED DURING THE PERIOD

TELEGRAMS
17768 US OPPOSITION TO IDB PROJECT FOR CHILE
17155 TRADE ADJUSTMENT ASSISTANCE
HARTMAN

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